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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

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APR 21 2005

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AZ CORP COMMISSION
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DATE: April 21, 2005

RE: IN THE MATTER OF THE FILING OF SABROSA WATER
COMPANY FOR AN EMERGENCY RATE INCREASE IN (DOCKET
NO. W-02111A-05-0167)

LEGAL DIV.
ARIZ CORPORATION COMMISSION

EXHIBIT

S-1
admitted

INTRODUCTION

Sabrosa Water Company ("Sabrosa" or "Company") serves approximately 65 customers and is located near New River, Arizona. On March 8, 2005, Sabrosa filed a request for an emergency rate increase. On March 23, 2005, Sabrosa filed a supplement to the application for emergency rate relief conveying that nitrate levels in one of its wells had exceeded a safe threshold. The Company is operating under the management of an interim operator appointed by the Commission due to abandonment by its owner.

SUMMARY OF COMPANY'S JUSTIFICATION FOR EMERGENCY RATE RELIEF

According to the Company's application, its current rates do not provide sufficient revenue to enable Sabrosa to become financially viable. Sabrosa is operating at a financial loss, and it is currently failing to meet customer needs in the areas of: A) capacity to meet customer demands, B) water quality to meet government standards, and C) operating revenue to pay operating expenses and to make needed investments in plant.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates¹ include:

1. A sudden change that causes hardship to a company
2. A company is insolvent, and

¹ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001) ("Rio Verde").

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3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

STAFF'S ANALYSIS

The Company claims the following system inadequacies.

Inadequate Capacity

The Company's water supply and the size of its water system are inadequate to meet the needs of its current customers. The Company did not have enough water to meet demands during its 2003 and 2004 summer months' peak periods and was forced to purchase water from Arizona American Water Company (Anthem). The sizes of the water lines are too small and may not be looped causing a lack of circulation. This condition could have adverse (disinfection) health impacts. Additionally, the water system's pressure is typically at or below standards and is not able to sustain pressure needed for critical "fire flow". The water system is in general disrepair.

Inadequate Water Quality

The Company's water quality is currently not meeting water quality standards. Nitrates in one of the wells exceeds the established maximum contaminate level of 10 mg/L. Additionally, the arsenic level of 35 ppb exceeds the new arsenic standard of 10 ppb that will become effective January 23, 2006.

Inadequate Operating Revenue

Sabrosa's current rates do not provide sufficient revenue to pay its operating expenses and to correct its capacity and water quality problems. The Company is not current on its property taxes and cannot make needed repairs and perform required maintenance on the system. It is incurring legal expenses to address legal issues created by the owner.

Conclusion

Staff concludes, based on review of the Company's unaudited application, that Sabrosa's condition satisfies the criteria to qualify for emergency rates. The Company is not currently providing adequate service, and there is no reasonable expectation that it could begin to provide adequate service at existing rates. Implementation of emergency rates may prevent further deterioration of the perilous condition of this system.

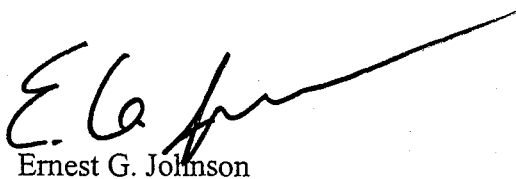
PROPOSED INTERIM EMERGENCY RATES

The Company proposed the following interim emergency rates.

	<u>Current Rates</u>	<u>Company Proposed Emergency Rates</u>
Monthly Minimum Charge Based on 5/8 - inch meter	\$17.50	\$39.50
Gallons in Minimum	1,000	0
Commodity Charge		
0 to 3,000 gallons, per 1,000 gallons:	\$ 1.95	\$ 6.00
3,001 to 10,000 gallons, per 1,000 gallons:	\$ 1.95	\$ 9.00
10,001 and over gallons, per 1,000 gallons:	\$ 1.95	\$ 10.80
Typical residential bill (Based on usage of 8,569 gallons)	\$34.21	\$107.62

STAFF'S RECOMMENDATIONS

Staff recommends adoption of the interim rates proposed by the Company. Staff further recommends that the Company file a permanent rate increase application by March 31, 2006 using a 2005 test year. Staff further recommends that the interim rates be subject to refund pending the decision resulting from the permanent rate increase proceeding. Staff further recommends that the Company post a bond in an amount of \$10 prior to implementing the emergency rate increase authorized in this proceeding.



Ernest G. Johnson
Director
Utilities Division

EGJ:CSB:rdp
Originator: Crystal S. Brown

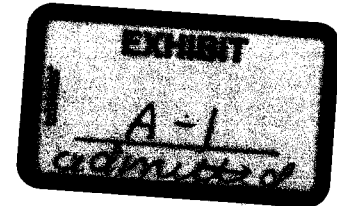
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ARIZONA CORPORATION COMMISSION

January 28, 2005



Mr. Trevor T. Hill
President and CEO
Global Water Resources
22601 North 19th Avenue
Suite 210
Phoenix, AZ 85027

Re: *Staff of the Utilities Division of the Arizona Corporation Commission v. Sabrosa Water Company, and Arizona Corporation*
Docket Nos. W-02111A-00-0286

Dear Mr. Hill:

In accordance with Arizona Corporation Commission Decision Nos. 62572 and 63136, the Utilities Division ("Division") has been vested with the authority to appoint Global Water Resources ("Global") as interim manager of the Sabrosa Water Company ("Sabrosa") located in New River, Arizona. The Utilities Division represents that it has the authority to enter and sign this letter agreement setting forth the terms and conditions of Global's appointment as interim manager for Sabrosa Water Company. Copies of those decisions are attached as Exhibit A.

INTERIM MANAGEMENT AGREEMENT

The Commission appoints Global Water Resources as interim manager under the following terms and conditions. Global shall use its best efforts to operate, manage and maintain Sabrosa Water Company in order to bring the utility into full compliance with Arizona Law, the Commission's Rules and Orders, and with all other regulatory agencies such as the Department of Environment Quality, Department of Water Resources, etc. This is not a permanent appointment and is subject to revocation at any time. Global's appointment is at the discretion of the Division. There is no contract with Global and no compensation due Global from the Division, the Commission or the State of Arizona as a consequence of operating Sabrosa Water Company. Further, the Division and Global acknowledge that Global will act as an independent interim operator and has no affiliation with Sabrosa. Global is not assuming any obligations of Sabrosa. It is further understood that Global as interim manager will not assist Sabrosa in any other capacity than that specified in this agreement or approved by the Commission.

The Division acknowledges and agrees that Global is a separate and independent entity from Sabrosa. Except for any problems caused directly by Global after the execution of this letter agreement, Global is not responsible or liable for any violations or problems with Sabrosa

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Mr. Trevor Hill
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currently existing, arising prior to or after, and/or caused by operations of Sabrosa prior to or after the execution of this letter agreement, including environmental health and/or any other problems or violations. Further, the Division acknowledges and agrees that Global is under no obligation and is not liable to repay, settle, or otherwise resolve any debts, judgments, actions, balances and/or claims, including unpaid sales, property or income taxes against Sabrosa.

The Division authorizes Global to perform the duties normally attendant with the operation and maintenance of a water company as a public service corporation including, but not limited to, the following:

1. The mailing and/or hand-delivery of customer notification letters informing all the customers of the appointment of the interim manager and contact information.
2. The timely reading of meters and the prompt collection of bills from customer ratepayers of the system, including billing and collection for back due services as instructed by the Commission.
3. The prompt adjustment of legitimate ratepayer complaints.
4. The connection and disconnection of service in accordance with the tariffs of Sabrosa and the rules of the Arizona Corporation Commission.
5. The filing of tariffs for Sabrosa under Arizona Corporation Commission rules.
6. The day-to-day testing and monitoring of the systems as required by applicable regulatory authorities.
7. The right to examine, pay, prioritize and/or reject bills or debts associated with interim operation of Sabrosa in the manner in which a prudent owner of a water company would pay the bills of the company.
8. The making of minor repairs associated with the interim operation of Sabrosa (such repairs to be paid for out of the receipts and proceeds from interim operations).
9. The keeping of accounting and payment records as interim operator of Sabrosa. Global will keep such records strictly as the Commission-appointed interim manager.
10. The making of capital improvements to the water system of Sabrosa at Global's discretion.
11. Global, as the interim system operator acting on behalf of Sabrosa, may pursue and file a rate case. Global, in its interim operator capacity, may seek a rate increase on an emergency and/or a permanent basis for Sabrosa.

In addition, Global must do the following:

1. Global shall file a Progress Report with the Division's Compliance Section every 180 days, and each 180 days thereafter, after taking over the operation, maintenance and management of Sabrosa water system. The Progress Reports shall include information detailing all funds received and funds dispersed by expense category. These Progress

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Reports shall also include updates detailing the resolution of all formal customer complaints.

2. Global shall assume responsibility for all pending and future regulatory filings, and ensure that the certificated public service corporation is in compliance with all Commission Decisions and Rules.

Global may discontinue its activities as interim manager at any time and for any reason; and Global shall give the Commission 30 days notice of any decision to discontinue.

As interim manager, Global is entitled to a monthly fee for interim management equal to the costs incurred during the month in performing items 1-11 above plus \$100. Global may utilize funds and payments received from customers of Sabrosa to pay the management fee, and at Global's discretion, any operating debts of Sabrosa. If the funds and payments received from customers of Sabrosa during any month are insufficient to recoup the monthly management fee noted above, the deficit shall be considered a debt of Sabrosa. Global shall be entitled to collect any unpaid monthly management fees through future rates collected on behalf of Sabrosa Water Company. Global has the right to file for an accounting order regarding interim operation expenditures and outlays.

The Division acknowledges that certain third parties may claim a secured or property interest in portions of Sabrosa Water System. The Division represents that it did not approve any such encumbrances or rights under Ariz. Rev. Stat. § 40-302.

The Division will appreciate your acknowledgment of this letter by signing below and returning the accompanying copy. Thank you for your willingness to serve the community. If you have any questions regarding this appointment, please do not hesitate to contact me in writing.

Sincerely,

Ernest G. Johnson
Director, Utilities Division

cc: Docket Control
Sabrosa Water Company

To: Ernest G. Johnson
Director, Utilities Division

By signature below, I acknowledge receipt of the foregoing and agree to comply with the terms set forth therein.

Mr. Trevor Hill
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January 28, 2005

By



Trevor Hill

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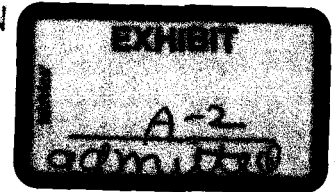
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IN THE MATTER OF THE FILING OF
SABROSA WATER COMPANY FOR AN
EMERGENCY INTERIM RATE INCREASE.

DOCKET NO. W-02111A-05-0167

APPLICATION FOR EMERGENCY
INTERIM RATE RELIEF

Sabrosa Water Company ("Sabrosa"), through undersigned counsel, hereby submits to the Arizona Corporation Commission ("Commission") this Application for Emergency Interim Rate Relief.

Sabrosa is plagued with serious financial, operational and water (quality and quantity) problems that jeopardize its ability to provide ongoing adequate, reliable and safe water to its customers. Sabrosa's owner has abandoned the utility. Sabrosa has been, and for the immediate future will continue to be, operated by interim managers. Sabrosa's rates are not sufficient to operate the utility or fix its problems.

Sabrosa's current interim manager believes that these circumstances create an emergency situation that places customers at risk and must be addressed and corrected as soon as possible. An interim rate increase is in the public interest and a crucial first step in addressing and resolving Sabrosa's problems.

In support of this Application for Emergency Interim Rate Relief, Sabrosa states as follows:

I. BACKGROUND.

Sabrosa provides water services to approximately 65 customers located in the New River, Arizona area. Sabrosa is owned by Keith J. Morris. However, Sabrosa has been abandoned by its owner and for many years Sabrosa has failed to make needed capital expenditures in order to meet

1 the needs of its customers. In fact, the Commission has already revoked Sabrosa's Certificate of
2 Convenience and Necessity ("CC&N").

3 In 2000, Arizona American Water Company ("AWC") was appointed interim manager for
4 Sabrosa. AWC served as interim manager until approximately January 31, 2005. During its
5 tenure as interim manager, AWC operated Sabrosa for the benefit of customers, including
6 subsidizing its operations. Despite AWC's operational efforts and financial subsidy, Sabrosa
7 remains a financially troubled utility.

8 On or about February 1, 2005, Global Water Resources, LLC ("GWR") was appointed as
9 the successor interim manager of Sabrosa. In connection therewith, GWR performed due
10 diligence on Sabrosa. GWR learned that in addition to ownership, financial and operational
11 issues, Sabrosa has substantial problems with water quality and quantity, infrastructure and
12 expandability. GWR has accepted the appointment to be interim manager on the premise that it
13 will not only attempt to operate Sabrosa for the immediate benefit of the customers, but it will also
14 fix the problems and rehabilitate the utility to be a provider of safe, reliable and adequate water.
15 In connection with GWR's appointment as interim manager, the Interim Management Agreement
16 dated January 28, 2005, states:

17 Global, as the interim system operator acting on behalf of Sabrosa, may
18 pursue and file a rate case. Global, in its interim operator capacity, may
19 seek a rate increase on an emergency and/or a permanent basis for
20 Sabrosa.¹

21 **II. COMMISSION AUTHORITY TO ISSUE INTERIM RATE RELIEF.**

22 The Commission may order interim rate relief when there is an existing emergency
23 situation. Scates v. Arizona Corporation Commission, 118 Ariz. 531, 578 P.2d 612 (1978). An
24 emergency situation has been found to exist when (i) a change in circumstances brings a hardship
25 to a utility; (ii) the utility is insolvent; or (iii) the condition of the utility is such that its ability to
26 maintain service pending a formal rate determination is in serious doubt. Ariz. Atty. Gen. Op. No.

27 ¹ Attached hereto as Exhibit 1 is a copy of the Interim Management Agreement.

1 71-17 (cited in Re Mount Tipton Water Co., Inc., Decision No. 66732 (January 20, 2004); Re Park
2 Water Co., Inc., Decision No. 66389 (October 6, 2003); Re Forty Niner Water Co., Decision No.
3 65352 (November 1, 2002).² In Sabrosa's case, the Commission is fully justified in issuing
4 interim rate relief. Sabrosa's ability to maintain service is in serious doubt and current rates are
5 not sufficient to provide the utility with the funds to correct the problems that constitute the
6 emergency.

7 In granting emergency rate relief the Commission is not required to ascertain the utility's
8 rate base and conduct a full examination into fair value. Residential Utility Consumer Office v.
9 Arizona Corporation Commission, 199 Ariz. 588, 591, 1169 P. 3d 1169, 1172 (App. 2001).
10 Instead, that evaluation is reserved for a subsequent permanent rate case.

11 The requested interim rates are just and a reasonable first step in the Sabrosa plan to
12 remedy its problems.

13 **III. THE PROBLEMS THAT CONSTITUTE THE SABROSA EMERGENCY.**

14 The Sabrosa emergency is real, immediate and substantial. The problems that constitute
15 the Sabrosa emergency include: (i) inadequate water supplies; (ii) marginal to poor water quality;
16 (iii) poorly maintained equipment and infrastructure; (iv) a series of financial and legal problems
17 as a result of ownership abandonment; and (v) confiscatory rates.

18 The current status of Sabrosa's water services, infrastructure and business is unstable.
19 That is why the Commission has been forced to solicit and authorize interim managers to operate
20

21
22 ² An emergency has been found where current rates (i) left the utility without sufficient
23 revenue to pay its debt service and its regular operating expenses. Re Mount Tipton Water Co.,
24 Inc., Decision No. 66732 (January 20, 2004); (ii) did not cover water hauling expenses the utility
25 had to incur as a result of drought and excessive customer usage. Re Park Water Co., Inc.,
26 Decision No. 66389 (October 6, 2003); Pine Water Co., Inc., Decision No. 65914 (May 16, 2003);
27 (iii) did not cover unanticipated, but necessary, expenses incurred as a result of drought conditions
that caused a sudden change in operating conditions that in turn caused financial hardship. Forty
Niner Water Co., Decision No. 65352 (November 1, 2002); and (iv) did not provide the utility
with any positive cash flow, leaving it unable to repay a loan the utility had to obtain when one of
its two pumps failed and had to be replaced. Katherine Resort Water Co., Decision No. 59080
(May 5, 1995).

1 Sabrosa. Notwithstanding the efforts of interim managers, presently Sabrosa can not assure the
2 Commission or its customers that it is able to provide ongoing adequate, reliable or safe water
3 services. The longer this situation is permitted to continue, rather than be fixed, the greater the
4 likelihood that Sabrosa's customers will be faced with the ultimate prospect of no water utility and
5 no viable water supply.

6 **A. Insufficient Water Quantity.**

7 Sabrosa suffers from a general lack of water. The three wells that serve Sabrosa are
8 essentially shallow domestic wells drilled into fractured rock. During 2003 and 2004, the wells
9 were not able to meet the demand for potable water during Sabrosa's summer months and peak
10 periods. Consequently, Sabrosa was forced to purchase additional potable water for its customers
11 from AWC. Sabrosa purchased 154,000 gallons of water from AWC in 2003, and 599,500 gallons
12 of water from AWC in 2004. It is anticipated that Sabrosa will need to purchase an even greater
13 amount of additional water in 2005, even if its production wells perform at optimal levels.

14 Furthermore, an inspection of all three Sabrosa production wells indicates that each well
15 will need significant repairs or will have to be replaced, as was recently the case for the Zorillo
16 Well which failed on 12 February 2005, necessitating complete replacement of the pump, motor
17 and controller. A copy of the "Report on the Condition and Performance of the Sabrosa Water
18 Company" dated February 28, 2005 is attached hereto as Exhibit 2 and by this reference
19 incorporated herein. This report includes a summary of the Zorillo Well failure. Correcting
20 Sabrosa's water quantity problems will require the expenditure of funds that Sabrosa does not
21 have and that current rates will not cover.

22 **B. Poor Water Quality.**

23 There are significant quality problems with Sabrosa's water. For example, Arsenic levels
24 are approximately 35 ppb. The present recommended safe level of Arsenic is 50 ppb.³ Also,
25 recently Sabrosa's water has yielded positive test results for Total Coliform. And, at least 2 of
26

27

³ A new Arsenic standard of 10 ppb will be effective as of January 23, 2006.

1 Sabrosa's wells indicated the presence of Nitrate in the water.

2 To correct Sabrosa's water quality problems, the existing well water will require
3 significant treatment at a substantial cost. Sabrosa's costs for "point of extraction" water
4 treatment would require at least \$500,000 of additional capital and would likely add \$30,000 to
5 \$50,000 of additional annual operating costs. "Point of use" water treatment for Arsenic could
6 also be considered for Sabrosa, however the application of point of use systems requires a
7 substantial increase in Sabrosa's involvement in domestic supply. As point of use systems are
8 located inside the customer's premises, Sabrosa personnel would have to gain access to the
9 systems for routine maintenance activities and for testing. It is unclear whether Sabrosa could
10 obligate homeowners' to allow it access for these purposes.. Either of these treatments will
11 require the expenditure of funds that Sabrosa does not have and current rates will not yield.

12 Alternatively, Sabrosa will have to acquire a new and treated source of water. Presently,
13 there appear to be 3 potential options for a new water supply to Sabrosa:

- 14 1. A main extension from AWC (at Anthem) of approximately 2.2
15 miles at an approximate cost \$750,000.
- 16 2. A main extension from Cave Creek Water Company ("CCWC")
17 of approximately 4.0 miles at an approximate cost of \$1.5
18 million.
- 19 3. A main extension from Desert Hills Water Company ("DHWC")
20 of approximately 3.5 miles at an approximate cost of \$1.5
21 million.

22 Again, these options will require Sabrosa to spend funds that it does not have.

23 **C. Neglected In-ground Infrastructure.**

24 Sabrosa's infrastructure is in relatively poor condition and, consequently, is in need of
25 significant repair. The water line sizes are inadequate and the distribution system does not appear
26 to be looped. This results in a lack of circulation which has adverse health (disinfection)
27 ramifications, leading to a further degradation in water quality.

Sabrosa's system pressures typically run at or below acceptable standards. The Sabrosa
system should be demarcated into to pressure zones to supply a more stable pressure to the

1 distribution system as a whole. The Sabrosa system is also not able to sustain critical "fire flow"
2 at this time.

3 Sabrosa's infrastructure problems are compounded by the lack of system maps and the
4 failure to have a dedicated line maintenance program. These additional deficiencies, if not
5 remedied, will require a considerable increase in time and money when Sabrosa responds to
6 infrastructure problems or when it attempts to troubleshoot the system or test the system integrity.

7 Sabrosa's maintenance activities are currently performed only on an absolute "as-needed"
8 basis - i.e., after the fact, when there is a system or equipment component failure. Unless
9 corrected, this type of post-hoc maintenance philosophy will place added pressure on the financial
10 needs of the utility, as emergency repairs are generally more costly than planned maintenance
11 expenses.

12 **D. Lack of System Expandability.**

13 The Sabrosa system, in its current configuration, cannot be expanded. Notwithstanding the
14 lack of available water, if expansion would be somehow possible, it would be a difficult or
15 extremely and expensive project. As a result, Sabrosa cannot "grow its way out" of the operational
16 problems it now faces. Furthermore, Sabrosa does not have the financial capability to expand to
17 meet the needs of customers who may locate within the service area in the near future.

18 **E. Unresolved Legal Issues Regarding Real Property, Title, Ownership and**
19 **Back-taxes.**

20 One of the major problems with Sabrosa is the quagmire of legal issues that its owner has
21 created. The current owner of Sabrosa has abandoned the utility and its customers but has retained
22 legal title to the utility's assets including real property. The Commission has revoked Sabrosa's
23 CC&N. Additionally, Sabrosa has been and still may be delinquent in the payment of taxes.
24 Consequently, these negative factors are a deterrent to third party investment in Sabrosa, as any
25 improvements to the infrastructure or on Sabrosa's real property arguably would inure to the
26 benefit of the current owner. It is virtually impossible to secure needed financing to improve the
27 Sabrosa system under these circumstances. Again, it will require additional time, manpower and

1 funds to clarify and resolve Sabrosa's legal issues.

2 **F. Negative Financial Condition.**

3 One of the more significant contributing factors for the failure of Sabrosa is its negative
4 financial condition. A consequence of the abandonment by Sabrosa's owner is a failure to address
5 the deteriorating financial condition—high costs, neglected operation and maintenance needs and
6 inadequate revenues. Obviously, Sabrosa's owner has not contributed any needed capital or
7 arranged for debt financing to meet the utility's problems.

8 Although AWC, while it was interim operator, infused some capital into the Sabrosa
9 system--all at a loss for many years (and which is now an additional Sabrosa debt), there has been
10 no opportunity to improve or fix the financial performance of the utility. For example, AWC,
11 which only accounted for direct operational costs, has indicated that as the Sabrosa interim
12 operator, it lost between \$25,000 and \$50,000 annually. When indirect costs are factored in, such
13 as management, training, insurance, customer service, billing, meter reading, accounting,
14 laboratory (including sampling and analysis), travel, chemicals etc., the loss is actually much
15 higher, in the range of \$75,000 to \$100,000 annually.

16 The Sabrosa system will continue to deteriorate until the utility's financial performance
17 can be permanently corrected. For that process to begin now, interim rates must be in place.

18 **G. Confiscatory Rates.**

19 Confiscatory rates do not allow the utility to recover costs or provide the opportunity for a
20 reasonable return on investment. Bluefield Waterworks and Improvement Company v. West
21 Virginia Public Service Commission, 262 US 679, (1922); Board of Public Utility Commissioners
22 v. New York Telephone Company, 271 US 23 (1926); Federal Power Commission v. Hope
23 Natural Gas Company, 320 US 591 (1944). Sabrosa's rates are clearly confiscatory as they do not
24 allow the utility to recover its costs or provide for a return. When a utility's rates are found to be
25 confiscatory, the Commission should authorize new non-confiscatory rates. (Id)

26 **(i) A Summary of Sabrosa's Current Rates.**

27 By any standard, Sabrosa's rates are too low and confiscatory. The current Sabrosa base

rate for a 5/8" meter is \$17.50 with a consumptive charge of \$1.95/1000. From an economic standpoint, the base charge should represent approximately 50% of the average revenue per customer per month and cover the fixed costs of operations irrespective of consumptive use. Indeed, in many cases economics require that the fixed charge exceed 50% where, as in the case of Sabrosa, customer-driven curtailment activity is certain.

The consumptive use charge should reflect all variable operation costs. Further, the rates must be designed in order to properly account for price elasticity. In the event material increases in rates are imposed, price elasticity indicates that a reduction in demand will ensue. This reduction can have a negative and potentially catastrophic effect on financial performance. However, it is believed that Sabrosa's price elasticity will be a short-to-medium term phenomenon and consumption will revert to its prior levels over time.

(ii) Proposed Rates.

In the case of Sabrosa, the rates must be designed to generate approximately \$90,000 to \$100,000 of revenue annually. This revenue will allow for continuous and stable operation, a modest infusion of capital for pump and line repair/replacement with the goal to restoring the utility to financial viability in the foreseeable future. With the addition of a new water pipeline, which over the long term will stimulate growth, the capital costs associated with this infrastructure could potentially eventually be offset. The following chart presents Sabrosa's current and proposed rate structures.

Rate Design	From	To	Existing Rate Structure	Proposed Rate Structure
Base Rate			\$17.50	\$39.50
Consumptive Charge -- Tier 1 (\$/1000)		3,000	\$ 1.95	\$ 6.00
Consumptive Charge -- Tier 2 (\$/1000)	3,001	10,000	\$ 1.95	\$ 9.00
Consumptive Charge -- Tier 3 (\$/1000)	10,001	+	\$ 1.95	\$10.80

The significant increase in Sabrosa's rates is attributable in part to the fact that the utility's water customers have received, and continue to receive water at rates that are too low and significantly less than the immediate surrounding communities. The current rate structure, if perpetuated, will result in Sabrosa continuing to spiral towards financial and operational collapse.

Accordingly, Sabrosa is requesting the Commission to authorize a Base Rate of \$39.50 and consumptive charges of (i) \$ 6.00 per 1,000 gallons up to 3,000 gallons used; (ii) \$9.00 per 1,000 gallons from 3001 to 10,000 gallons used; and (iii) \$10.80 per 1,000 gallons for 10,001 and more gallons used. (the "Requested Interim Rates")

It should also be noted that this proposed rate structure is not unprecedented in the State. There are other small water companies in Arizona which have rates more in keeping with their size, as is shown in the following table:

Statistical Analysis Produced by WIFA in 2003
 Based on 7,750 gallons/customer/month
 Actual Sabrosa Consumption 8,569 gallons/customer/month

Name	Mt Lemon Cooperative	Sherman Pines HOA Water Co.	White Hills Co.	West Village DWID Co.	Solitude Trails Co.	Pine Water Assoc. Utility Co.	Tonto Hills Co.	Dragoon Water	Average	Sabrosa Existing Rate Structure	<i>Sabrosa Proposed Rate Structure</i>
Customers	404	43	81	69	76	57	108	142	123	70	70
Base Charge	\$41.85	\$15.95	\$19.00	\$26.00	\$25.00	\$20.00	\$40.00	\$32.00	\$27.48	\$17.50	\$ 39.50
Consumption	\$57.75	\$65.63	\$70.88	\$39.14	\$49.00	\$46.50	\$52.70	\$35.40	\$52.13	\$14.75	\$ 68.63
Total	\$99.60	\$81.58	\$89.88	\$65.14	\$74.00	\$66.50	\$92.70	\$67.40	\$79.60	\$32.26	\$108.13
Rate per 1000	\$ 7.45	\$ 8.47	\$ 9.15	\$ 5.05	\$ 6.32	\$ 6.00	\$ 6.80	\$ 4.57	\$ 6.73	\$ 1.90	\$ 8.86

IV. CONCLUSION.

The Sabrosa problems constitute an emergency. To fix the Sabrosa problems will require a significant amount of time and money. Sabrosa's current rates are part of the problems and do not provide sufficient revenues to allow the interim manager to properly maintain the utility or undertake the necessary corrective action.

The alternative to granting interim rate relief is to permit Sabrosa to continue operating "as-is", without any prospect of ensuring safe, adequate and reliable water service presently or in the future. It would be contrary to the best interests of Sabrosa's customers to ignore the problems and allow them to perpetuate. No interim manager would want to continue to operate under those circumstances.

1 The interim rates proposed by Sabrosa are reasonable and will allow the interim manager
2 to begin to address the Sabrosa problems. If interim rates are not approved and Sabrosa is forced
3 to cease operation, customers will be forced to either pay to "haul water" or drill their own wells -
4 both of these alternatives are more costly than the interim rates. It clearly is in the best interests
5 of Sabrosa's customers for the Commission to authorize Sabrosa to charge the interim rates
6 requested herein pending the determination of a permanent rate case filing by the utility.

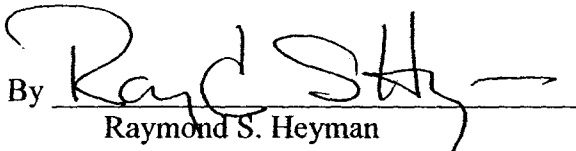
7 **V. REQUEST FOR RELIEF.**

8 Wherefore, for all the foregoing reasons, Sabrosa respectfully requests that the
9 Commission issue an order:

- 10 1. Finding that the Sabrosa problems constitute an emergency;
- 11 2. Concluding that it is in the public interest to authorize the Requested Interim Rates;
- 12 3. Ordering Sabrosa to charge the interim rates requested herein pending a
13 determination of a permanent rate case proceeding; and
- 14 4. Granting any additional and further relief as the Commission deems appropriate.

15 RESPECTFULLY SUBMITTED this 8th day of March 2005.

16 ROSHKA HEYMAN & DEWULF, PLC

17
18 By 
19 Raymond S. Heyman
20 Michael W. Patten
21 One Arizona Center
22 400 East Van Buren Street, Suite 800
23 Phoenix, Arizona 85004
24 Attorneys for Sabrosa Water Company

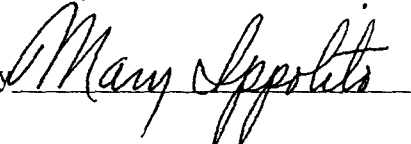
25 Original and 13 copies of the foregoing
26 filed this 8th day of March 2005 with:

27 Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed
this 8th day of March 2005 to:

ROSHKA HEYMAN & DEWULF, PLC
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

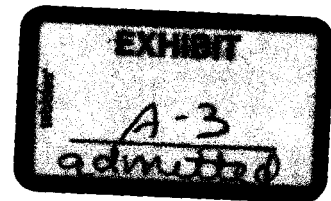
- 1 Chairman Jeff Hatch-Miller
2 Arizona Corporation Commission
3 1200 West Washington Street
4 Phoenix, Arizona 85007
5
6 Commissioner Marc Spitzer
7 Arizona Corporation Commission
8 1200 West Washington Street
9 Phoenix, Arizona 85007
10
11 Commissioner Mike Gleason
12 Arizona Corporation Commission
13 1200 West Washington Street
14 Phoenix, Arizona 85007
15
16 Commissioner Kristin K. Mayes
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007
20
21 Lyn A. Farmer, Esq.
22 Chief Administrative Law Judge
23 Hearing Division
24 Arizona Corporation Commission
25 1200 West Washington Street
26 Phoenix, Arizona 85007
27
28 Christopher C. Kempley, Esq.
29 Chief Counsel, Legal Division
30 Arizona Corporation Commission
31 1200 West Washington Street
32 Phoenix, Arizona 85007
33
34 Ernest G. Johnson
35 Director, Utilities Division
36 Arizona Corporation Commission
37 1200 West Washington Street
38 Phoenix, Arizona 85007

26 By 
27

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER - CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

2005 MAR 22 P 4:48
AZ CORP COMMISSION
DOCUMENT CONTROL



IN THE MATTER OF THE FILING OF
SABROSA WATER COMPANY FOR AN
EMERGENCY INTERIM RATE INCREASE.

DOCKET NO. W-02111A-05-0167

SUPPLEMENT TO APPLICATION
FOR EMERGENCY INTERIM RATE
RELIEF

Sabrosa Water Company ("Sabrosa"), through undersigned counsel, hereby submits to the Arizona Corporation Commission ("Commission") this Supplement to Application for Emergency Interim Rate Relief filed on March 8, 2005 (the "Application"), as follows:

On March 8, 2005, Sabrosa submitted the Application to the Commission. In the Application, Sabrosa stated that one of the reasons emergency interim rate relief was necessary was the poor water quality of the Sabrosa wells. Sabrosa also stated that "at least 2 of Sabrosa's wells indicated the presence of Nitrate in the water." Application at 4-5.

On March 10, 2005, Sabrosa tested the Wright Well for Nitrates. Testing on the Wright Well was repeated on March 16, 2005. The average concentration of Nitrates in the two samples taken from the Wright Well was 11.5 mg/L. These results demonstrate that the presence of Nitrates in the Wright Well exceeds the established maximum containment level of 10 mg/L. A copy of a memorandum discussing the Wright Well testing and results is attached hereto as Exhibit 1 and by this reference incorporated herein (the "Nitrate Memorandum").

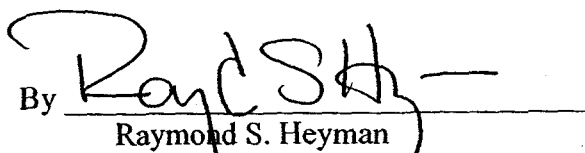
Upon learning of the results of the Wright Well testing, Sabrosa, among other things, isolated the Wright Well from the Sabrosa distribution system and sent a "Notification of Nitrate Exceedance" to each Sabrosa customer. A sample copy of the notification is attached to the Nitrate Memorandum.

1 As explained in the Nitrate memorandum, the Nitrate levels in the Wright Well (and even
2 the Zorillo Well) underscore the emergency situation that exists with Sabrosa and further justifies
3 the emergency rate increase that has been requested. Without additional revenue, Sabrosa will be
4 unable to properly operate and maintain its system or adequately meet the needs of its customers.

5 Wherefore, for all the foregoing supplemental reasons, Sabrosa requests that the
6 Commission expeditiously grant the relief requested in the Application.

7 RESPECTFULLY SUBMITTED this 22nd day of March 2005.

8 ROSHKA HEYMAN & DEWULF, PLC

9
10 By 

11 Raymond S. Heyman
12 Michael W. Patten
13 One Arizona Center
14 400 East Van Buren Street, Suite 800
15 Phoenix, Arizona 85004
16 Attorneys for Sabrosa Water Company

17 Original and 13 copies of the foregoing
18 filed this 22nd day of March 2005 with:

19 Docket Control
20 Arizona Corporation Commission
21 1200 West Washington Street
22 Phoenix, Arizona 85007

23 Copy of the foregoing hand-delivered/mailed
24 this 22nd day of March 2005 to:

25 Chairman Jeff Hatch-Miller
26 Arizona Corporation Commission
27 1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Marc Spitzer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ANGUS A. LEBLANC & DEWOLF, P.A.
ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

- 1 Commissioner William A. Mundell
- 2 Arizona Corporation Commission
- 3 1200 West Washington Street
- Phoenix, Arizona 85007
- 4 Commissioner Mike Gleason
- 5 Arizona Corporation Commission
- 6 1200 West Washington Street
- Phoenix, Arizona 85007
- 7 Commissioner Kristin K. Mayes
- 8 Arizona Corporation Commission
- 9 1200 West Washington Street
- Phoenix, Arizona 85007
- 10 Lyn A. Farmer, Esq.
- Chief Administrative Law Judge
- 11 Hearing Division
- Arizona Corporation Commission
- 12 1200 West Washington Street
- Phoenix, Arizona 85007
- 13 Christopher C. Kempley, Esq.
- Chief Counsel, Legal Division
- 15 Arizona Corporation Commission
- 1200 West Washington Street
- 16 Phoenix, Arizona 85007
- 17 Ernest G. Johnson
- 18 Director, Utilities Division
- Arizona Corporation Commission
- 19 1200 West Washington Street
- Phoenix, Arizona 85007

21

22

23 By Mary Ippolito

24

25

26

27



MEMORANDUM

TO: Trevor Hill
Cindy Liles

FROM: Graham Symmonds

DATE: 22 March 2005

RE: Nitrate Level – Wright Well
Sabrosa Water Company

SENT BY: Email **PAGES:** 3

BACKGROUND

Routine nitrate analysis at the Sabrosa Water Company has indicated that the Wright Well water exceeds the maximum contaminant level ("MCL") for nitrate ($\text{NO}_3\text{-N}$). The MCL for nitrate is 10 mg/L. Water tested Wright Well shows the following:

Date Analysis Received	$\text{NO}_3\text{-N}$
10 March 2005	11 mg/L
16 March 2005	12 mg/L

By the Safe Drinking Water Act, on exceeding an MCL, a contingency plan is implemented which allows for a check sample to be taken. The original sample and the check sample are then averaged to determine the reportable level. In this case, the average of the two samples (11.5 mg/L) exceeds the MCL.

Levels from the Zorillo Well initially showed a nitrate level of 9.8 mg/L, but the check sample returned at 5.1 mg/L. This makes the reportable value 7.5 mg/L. This is below the MCL. However, due to the fact the value exceeds the trigger (5.0 mg/L), Sabrosa will continue to require quarterly sampling for nitrate at the POEs.

The Sabrosa Well was not running during the sampling period.

IMMEDIATE ACTION

On notification of the first sample results, GWM staff isolated the Wright Well from service. A second sample was taken to confirm the results. On notification that the check sample confirmed the original sample, on 17 March 2005 GWM contacted:

1. Jenny Young, Maricopa County Environmental Services Department; and
2. John Calkin, Arizona Department of Environmental Quality.

An exceedance of an MCL for nitrate requires initiation of an acute reporting protocol (24 hour public notice). This notice was mailed by first class mail to each Sabrosa Water Customer on 17 March 2005 (a copy of this notice is included as an attachment). In addition, the notice was placed on the GWR web-site (www.gwresources.com).

HEALTH EFFECTS OF NITRATE

Nitrate is a regulated primary contaminant under the Safe Drinking Water Act due to its potential for causing serious health problems. The following is taken from the USEPA web-site:

Short-term: Excessive levels of nitrate in drinking water have caused serious illness and sometimes death. The serious illness in infants is due to the conversion of nitrate to nitrite by the body, which can interfere with the oxygen-carrying capacity of the child's blood. This can be an acute condition in which health deteriorates rapidly over a period of days. Symptoms include shortness of breath and blueness of the skin.

Long-term: Nitrates and nitrites have the potential to cause the following effects from a lifetime exposure at levels above the MCL: diuresis, increased starchy deposits and hemorrhaging of the spleen.

SUSPECTED ROUTE OF ENTRY

The Sabrosa Water Company system is rural-based. Many residents maintain livestock activity in the area. The significant amount of rain received in the area in January and February has likely caused an increase in the water reaching the water table. This run-off water will carry nitrate from the surface to the groundwater. The other wells in the area may also be susceptible to nitrate contamination, although the Wright Well in particular is situated in direct contact with animal husbandry activities.

FOLLOW-ON ACTIVITY

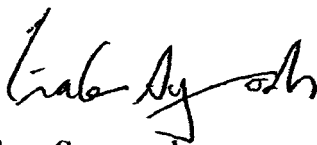
GWM will continue to monitor the nitrate levels at Sabrosa. Operations staff have undertaken the following activities:

1. The Wright Well will remain isolated from the distribution system;
2. Additional samples for nitrate have been taken from the distribution system;
3. Staff are incrementally changing the water in the water storage tank by dropping approximately 2.5 feet every two days, and allowing the tank to be filled from the Zorillo Well; and

4. Increased routine monitoring of nitrate at the POE's is being undertaken.

CONCLUSIONS

The isolation of the Wright Well due to nitrate contamination represents a loss of one quarter of the production capacity of the Sabrosa Water Company. In addition, this highlights the susceptibility of the wells to contamination, and probably explains the bacteriological hits associated with the system prior to the installation of the chlorination system under Arizona American Water's term as interim manager. As the company moves into the summer season, water supply will become critical. An alternative supply for this system will be a requirement in the near future.



Graham Symmonds
VP Compliance

SABROSA WATER COMPANY
A Global Water Managed Utility

Our File: SWC/Regulatory/MCESD/Reporting

17 March 2005

«AddressBlock»

Re: NOTIFICATION OF NITRATE EXCEEDANCE
Sabrosa Water Company PWS# 07-052

«GreetingLine»

This letter is to inform you that water from the Wright Well analyzed by Global Water Resources personnel exceeded the Maximum Contaminant Level ("MCL") for nitrate ($\text{NO}_3\text{-N}$). The MCL for nitrate is 10 mg/L; the water from the Wright Well measured 11.5 mg/L.

In response to this data, GWR has isolated the Wright Well from the distribution system. Water is still available from the Zorillo Well and the Sabrosa Well which meets all MCLs.

NOTICE

Analyte	MCL (mg/L)	Measured Value (mg/L)	Sources	Health Effects
Nitrate	10	11.5	Runoff from fertilizer use; Leaching from septic tanks, sewage; Erosion of natural deposits.	Infants below the age of six months who drink water containing nitrate in excess of the MCL could become seriously ill and, if untreated, may die. Symptoms include shortness of breath and blue-baby syndrome.

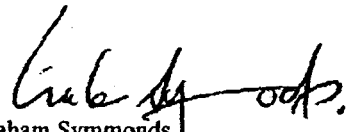
Should you need additional information, please contact:

1. Global Water Resources Customer Service: 623-580-9600
2. Maricopa County Environmental Services Department: 602-506-6616

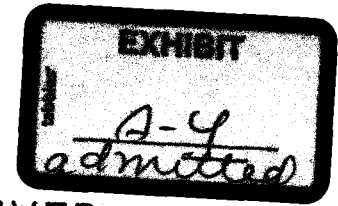
Global Water Resources will continue to analyze water from the Wright Well to determine the potential for re-connecting the source to the distribution system in the future. In the interim, the isolation of this well represents a loss of production capacity in the system, and therefore all residents are urged to conserve water.

Sincerely,

GLOBAL WATER MANAGEMENT, LLC


Graham Symmonds
Vice President Compliance

cc. ADEQ
MCESD
ACC



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER - CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

2005 APR -1 P 4: 59

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE FILING OF
SABROSA WATER COMPANY FOR AN
EMERGENCY INTERIM RATE INCREASE.

DOCKET NO. W-02111A-05-0167

**NOTICE OF
FILING AFFIDAVIT OF MAILING**

Sabrosa Water Company, through undersigned counsel, hereby submits the attached
affidavit of proof of mailing of the notice in this docket.

RESPECTFULLY submitted this 1st day of April 2005.

ROSHKA HEYMAN & DEWULF, PLC

By

Raymond S. Heyman
Michael W. Patten
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Original and 13 copies of the foregoing
filed this 1st day of April 2005, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

1 Copies of the foregoing hand-delivered/mailed
2 this 1st day of April 2005, to:

3 Dwight Nodes, Esq.
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 David Ronald, Esq.
10 Legal Division
11 Arizona Corporation Commission
12 1200 West Washington
13 Phoenix, Arizona 85007

14 Steve Olea
15 Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington
18 Phoenix, Arizona 85007

19 By

Mary Appelt

ONE ARIZONA CENTER
400 EAST VAN BUREN STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

AFFIDAVIT OF PROOF OF MAILING

Docket No. W-02111A-05-0167

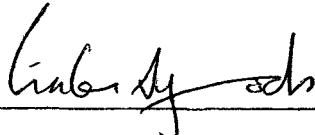
STATE OF ARIZONA)

) ss.

County of Maricopa)

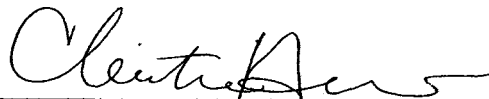
I, Graham Symmonds, states as follows:

1. I am the VP of Compliance for Global Water Resources.
2. I certify that a copy of the attached notice was included in the March customer billing statements that were mailed via U.S. First-Class Mail to all Sabrosa Water Company customers on March 30, 2005.



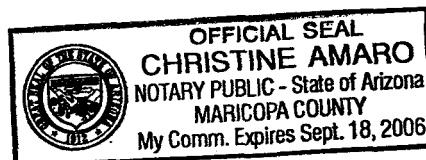
Graham Symmonds

SUBSCRIBED AND SWORN to before me by Graham Symmonds, this 31st day of March 2005.



Notary Public

My Commission Expires: 9/18/06



**PUBLIC NOTICE OF HEARING ON SABROSA WATER COMPANY'S
EMERGENCY INTERIM RATE APPLICATION**

Docket No. W-02111A-05-0167

On March 8, 2005, Sabrosa Water Company ("Company") filed an emergency interim rate application with the Arizona Corporation Commission. The Company is requesting that the Commission authorize rates, including a Base Rate of \$39.50 and consumptive charges of (i) \$6.00 per 1,000 gallons up to 3,000 gallons used; (ii) \$9.00 per 1,000 gallons from 3,001 to 10,000 gallons used; and (iii) \$10.80 per 1,000 gallons for 10,001 and more gallons used. Copies of the Company's application and proposed tariffs are available at its office (Global Water Resources, 22601 North 19th Avenue, Suite 210, Phoenix, Arizona) and at the Commission's offices in the Docket Control Center for public inspection during regular business hours. The Commission's Utilities Division Staff will file a recommendation to the Commission on the Company's application by April 22, 2005, and copies of that filing will be available at the Commission's offices in the Docket Control Center for public inspection after that date.

The Commission will hold a public evidentiary hearing on this matter beginning **May 6, 2005, at 10:00am** at the Commission's offices, 1200 West Washington Street, Phoenix, Arizona. Public comments will be taken on the first day of the hearing. Upon conclusion of the hearing, the presiding administrative law judge will take the matter under advisement and will draft a recommended Opinion and Order for the Commission's consideration. The Commission will ultimately vote on the application at a subsequent Open Meeting at a date to be determined, and may adopt the Company's proposed rates, or rates that are higher or lower than those sought by the Company.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission no later than April 29, 2005. The motion to intervene must be sent to the Company or its counsel and to all parties of record, and must contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different from the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g. a customer of the Company, a shareholder of the Company, etc.).
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any interested person or entity from appearing at the hearing and providing public comment on the application or from filing written comments in the record of the case. You will not receive any further notice of this proceeding unless you request it.

If you have any questions about this application, wish to file written comments on the application, or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at LHogan@cc.state.az.us, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.



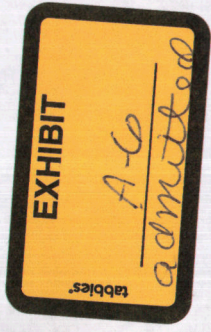
SABROSA Well
Sanitary Seal

A-5





Zorullo Well A-4
Replaced After Run-out



SAFETY 10465M/G010011



SABROSA Well -
Hydropneumatic Tank

A-7



SABROSA WATER COMPANY
A Global Water Managed Utility



Our File: SWC/Operations/Reporting

Via e-mail (original to follow)

04 March 2005

Steve Olea
Arizona Corporation Commission
Utilities Division
1200 West Washington
Phoenix, AZ 85007-2996

Re: Operations Report – February 2005
Sabrosa Water Company


Dear Steve:

Please find enclosed the first Operations Report for the Sabrosa Water Company. As we get further into the details of the systems, new deficiencies are being identified almost daily. The current state of the infrastructure, as indicated by the most recent failure of the Zorillo Well pump, only serves to highlight the urgency and necessity of the emergency rate relief. My staff is preparing the necessary documentation and expects that the submission will be made in the next few days.

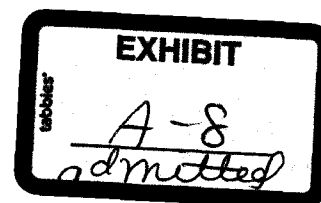
Should you have any questions, please feel free to contact me at your convenience at 623-580-9600 (office) or 623-203-8667 (cell).

Sincerely,

GLOBAL WATER RESOURCES, LLC


for Trevor T. Hill, P.Eng.
President & CEO

cc. Bradley Morton, ACC



GLOBAL WATER RESOURCES, LLC

Deer Valley Financial Centre
22601 North 19th Avenue
Suite 210
Phoenix, Arizona 85027
623.580.9600 phone
623.580.9659 fax

**Report on the Condition and Performance
of the Sabrosa Water Company**

Global Water Resources, LLC

28 February 2005

Background

On 1 February 2005 Global Water Resources, LLC ("GWR") was assigned as the Interim Manager for the Sabrosa Water Company ("SWC"). This company had been previously operated and maintained by Arizona American Water ("AAW") on behalf of the Arizona Corporation Commission ("ACC"). This report is prepared to highlight the operational performance of the utility, and to identify shortcomings in the system.

General

GWR has established a single CSR contact for SWC customers (Leanne Izzo) in order to foster a more personal relationship. In addition, GWR has added information for SWC customers on its corporate website (www.gwresources.com), with the intent to provide SWC customers access to detailed operational information in order to allow them to become more active in the conservation requirements until a reliable source of water may be secured. In addition, customers may now make payments on-line.

GWR has yet to receive the historic data from AAW although it is expected that this data should be available in the next week. GWR has received copies of the previous invoices sent to the customers which has allowed for a baseline of information to allow for some meaningful customer service contributions, such as confirmation of meter readings and invoicing questions.

On 17 February 2005, GWR held a public meeting attended by approximately 20 residents. This meeting outlined the history of the system, its challenges, the improvements made by AAW and the potential solutions for the system's perennial problems. GWR discussed rate increases with the customers, and all agreed that properly funding the operations of the system was a critical aspect of returning SWC to stability.

Number of Customers

As of 2 February 2005, SWC had 64 active customers on the system (according to AAW).

Operational Data:

The following data indicates the performance of the individual component wells of the system:

Zorillo Well

Total Gallons pumped (2 Feb to 27 Feb):	47,196 gallons
Total Minutes of Operation:	1189.2 minutes
Average Pump Rate:	39.7 GPM

Comments:

The Zorillo Well suffered a failure on 12 February which necessitated the complete replacement of the pump, motor and control panel. The change out was completed on 14 February. Because of the failure of this unit, 17,500 gallons of water were hauled from Anthem to Sabrosa by M&C hauling (on Sunday 13 February) in order to bring the system back to an operational state. The total time of customer water outage was approximately 4 hours (1330 to 1730 on 13 February 2005).

Investigation of the failed unit indicated that it had suffered a ground fault at the motor. The motor and pump both exhibited signs of excessive heating; while the exact cause cannot be known, possible causes include, a power surge, excessive cycling of the system (due to the fact that hydropneumatic tank is too small for the application), or perhaps even a lightning strike.

This failure cost GWR approximately \$6,500 to repair, plus the additional cost of hauling water to the site on the weekend. In addition, as an emergency call out, GWR incurred an additional cost associated with having personnel on-site from 1400 hours to 2030 hours on 13 February.

Wright Well

Total Gallons pumped (2 Feb to 27 Feb):	242,034 gallons
Total Minutes of Operation:	27,892 minutes

Average Pump Rate: 8.7 GPM

Comments:

This well represents the work-horse of the system. It runs nearly 24 hours per day.

Sabrosa Well

Total Gallons pumped (2 Feb to 27 Feb):	10,080 gallons
Total Minutes of Operation:	11,216 minutes

Average Pump Rate: 0.9 GPM

Comments:

This well is a very poor performer.

Summary

Total Water Pumped:	299,310 gallons
Water Hauled:	17,500 gallons
Total Water Delivered:	316,810 gallons
Average Daily Use:	12,672 gallons per day
	198 gallons per day per DU

Comments: Water use in this area is comparable to other areas in the Phoenix region.

Operational Observations

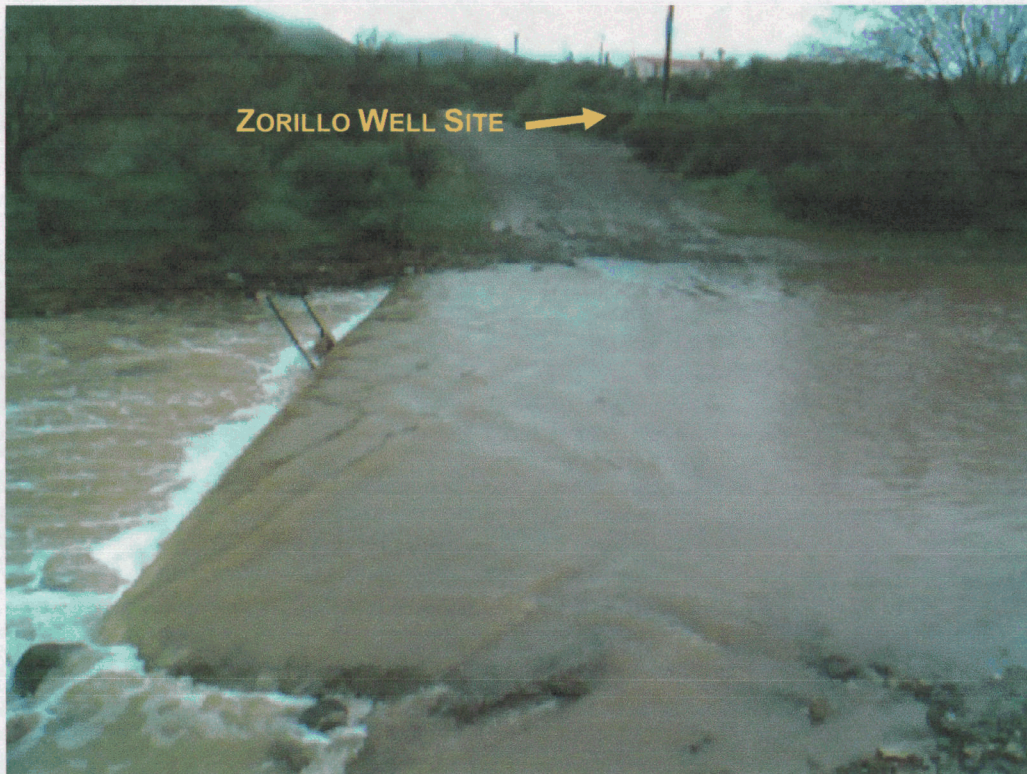
The following represents observations made by GWR personnel in the performance of the system checks and equipment repairs at the SWC sites.

1. The SWC system relies heavily on the Wright Well to pull the majority of duty. This is driven by the pressure settings and the hydraulic dynamics of the system. Ideally, the system would draw on the Zorillo Well (operating at 39 GPM) as the primary source; however, the current configuration precludes that. The Zorillo Well is set to come on only by pressure. As a result, and because of its volumetric capacity, the pump runs only for a few minutes as it brings the pressure from 65 to 72 psi. The well does not respond to tank levels, and as such contributes very little to the overall demand, and is run as a pressure regulator.
2. The SWC distribution system is chlorinated at all points of entry. Each well pump has associated with it a chlorine injection pump to add chlorine to the distribution system. The Wright Well chlorine injection system was observed as being non-functional (the injection system check valves were encrusted with salts, precluding flow from reaching the injection point.) While the residual chlorine level in the distribution system proper remained acceptable (and in fact, groundwater-based systems are not required to be disinfected in Arizona) the set-up of these systems and their continued manual intervention requires considerable operator attention.
3. At the beginning of the GWR tenure, the chlorine injection pump foot valves at all three well sites were in the precipitated salts at the bottom of the tanks. The foot valves were relocated to higher levels in the tanks.
4. The Sabrosa Well pumps only sporadically -- while the motor is running, the flow meter only moves for a gallon or two every 5 minutes. This well is either out of water or the pump is air locked or the submersible impeller/clearances are worn to the point of being non-functional. The recent rains have not helped the performance of this well. Some repair options include the replacement of this well; or the deepening of the existing structure.
5. The Zorillo Well system has a large amount of dissolved air. The air release mechanism is not functioning.
6. Both hydropneumatic tanks (one at the Sabrosa Well site and one at the Wright Well site) are water logged, and therefore do not supply any buffering capacity in the pressure system. In addition, the hydropneumatic tank at the Sabrosa Well has a leak, which will need to be repaired prior to re-introducing air into the tank. All three wells discharge directly to the distribution system, hence these hydropneumatic tanks provide pressure regulation and are a vital component to the longevity of the well pumps. Water logged hydropneumatic tanks cause short-cycling of pump strokes, accelerating wear by causing large pressure transients and potentially overheating of pump components (due to the lack of cooling water flow during the initial start).



7. The Webber Group, a well installation, servicing and inspection company sounded the Sabrosa Well on 11 February 2005. The pump and the water level are both at 360 feet which does not allow for any drawdown of the water table, as the cone of depression immediately impacts the water availability for the pump. The well also does not recover significantly when the pump is turned off. It is suspected that because the pump is located at the top of the aquifer, and the recovery is non-existent, the pump runs itself dry and then has to wait as the water trickles back in. In essence, the utility is paying electrical bills for no benefit from this well. Because of the system configuration however, this well needs to remain operational as it drives the “fill from the distribution system” solenoid valve.
8. The system is designed to fill from the distribution system whenever the Sabrosa Well is activated. This was an attempt at achieving some capacity while spending very little money. The Sabrosa Well runs off of Warrick controllers in the tank: when the tank level is less than 13 feet, the Sabrosa Well is activated, which also energizes a solenoid valve to open the distribution system to the tank. Unfortunately, when the booster pumps turn on, they take a suction from the tank, and discharge to the distribution system, which then goes directly back to the tank. Therefore, the booster pumps run longer than they need, and the fill cycle takes significantly longer than necessary. The solution would be to provide a separate storage tank into which the wells discharge, and from which the booster pumps draw. Ideally, each well site would be equipped with its own storage tank.
9. The check valve downstream of the Sabrosa well meter is leaking-by.

10. Customer meters are old, and many are completely buried to the level of their dials. Shut-off cocks are inoperable or inaccessible.
11. The water storage tank at the Sabrosa Well site fills from the bottom, requiring substantial head to be created before filling can be achieved, and decreasing the flow to the tank.
12. Access to the Zorillo Well is severely limited during rain events:



Compliance Activities

GWR has collected baseline well samples for all three wells, and the results are expected in March 2005. In addition, the sampling schedule below has been instituted:

SABROSA 04-07-052 DV Code 731	POE 001 (Wright well)	POE 002 (Zorillo Well)	POE 003	DISTRIBUTION
1Q2005	MAP VOC,SOC,IOC	MAP VOC,SOC,IOC	Nitrate MAP VOC,SOC,IOC	1 bacti/month
2Q2005	Nitrate Diquat	Nitrate	Nitrate	1 bacti/month
3Q2005			Nitrate	1 bacti/month 1 TTHMs/HAA5s
4Q2005	Hardness/pH (P)	Hardness/pH (P)	Nitrate Hardness/pH (P)	1 bacti/month

Triennial monitoring years: 2002, 2005, 2008 MAP to take IOC, VOC, SOC, Radiochems as annual sample
Lead/copper years: 2003 (Annual), 2004 (Triennial)

Future Activities

GWR will complete the following activities over the next quarter:

- Pull, video and inspect the Sabrosa Well (\$3,000); and
- Install Sixnet PLCs, tank level and pressure monitoring and chatterboxes for alarm notifications (\$7,500).

In addition, GWR will continue to review opportunities for efficiency at the utility, including the installation of radio read systems for meters (note that this will likely require meter change outs). Such a system would allow for more accurate meter reads, and save considerable time in the meter reading process, as the majority of the meters are placed in awkward locations.

Costs to Date

To date, GWR has estimated the following on expenditures on SWC:

Operations and Management	\$5,000
Emergency Call-outs	\$ 400
Emergency Repairs	\$6,500
Emergency Water	\$1,000
Total	\$12,900

It should be noted that the entire annual revenue generated from this system is only expected to be \$28,000, and that GWR has not yet had the benefit of any revenue from the system.

Conclusions

The following conclusions can be reached based on the operational experience with the Sabrosa Water Company system:

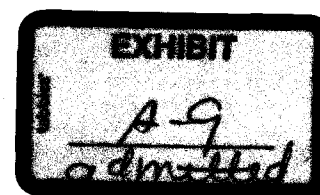
1. This is an unstable system – system performance is dependent on all equipment running correctly at all times;
2. There is no fault tolerance or redundancy available in the system;
3. There is inadequate storage to deal with system failures;
4. The system infrastructure is weak and will require continuous repair and upgrade;
5. The Sabrosa Well needs to be closely examined to determine the reason for its poor performance;
6. The Sabrosa hydropneumatic tank requires repair/replacement;
7. The Wright hydropneumatic tank requires installation of a control system to maintain a water/air interface;
8. The system needs to be completely re-tuned to allow the Zorillo Well to contribute more to the system demand;
9. The Zorillo Well system needs a larger hydropneumatic tank, and preferably would discharge into an on-site storage tank and be boosted to the distribution system;
10. Substantial capital improvements are required to bring the system to an acceptable standard from an operational perspective; and
11. To date, GWR has invested \$12,900 in the first month of operations. This represents the almost one-half of the total annual revenue for SWC.

Each of these system deficiencies needs to be evaluated in terms of total costs, although they are expected to be considerable. This further underscores the necessity for an emergency rate proceeding.

GLOBAL WATER RESOURCES, LLC



Graham Symmonds, P.Eng.

**Report on the Condition and Performance
of the Sabrosa Water Company****Global Water Resources, LLC****31 March 2005****BACKGROUND**

On 1 February 2005 Global Water Resources, LLC ("GWR") was assigned as the Interim Manager for the Sabrosa Water Company ("SWC"). This report is prepared to highlight the operational performance of the utility, and to identify any shortcomings in the system. It is supplementary to previous operational reports.

GENERAL

GWR received the historic data from Arizona American allowing for full integration to GWR's billing system. Meters were read 1 – 2 March 2005.

On 8 March 2005, Sabrosa submitted an application for emergency rate relief. On 22 March 2005, a supplement was filed detailing the nitrate exceedances, further emphasizing the need for capital and operational improvements. A procedural order was issued 25 March, incorporating the following dates:

4 April 2005	Public Notice Deadline
22 April 2005	Staff Recommendations Due
29 April 2005	Deadline for Intervention
6 May 2005	Hearing

Public notice of this action will be included in the March invoices to Sabrosa customers.

NUMBER OF CUSTOMERS

As of 28 March 2005, SWC had 64 active customers on the system.

OPERATIONAL DATA

The following data indicates the performance of the individual component wells of the system:

Zorillo Well

Total Gallons pumped (27 Feb to 28 Mar):	200,930 gallons
Total Minutes of Operation:	5,111.7 minutes

Average Pump Rate: 39.3 GPM

Comments:

As a result of the nitrate levels in the Wright Well, the Zorillo Well has been placed into primary operation. This well has the physical capacity to maintain the system at present. Nitrate data from this well has shown values ranging from 5.1 to 9.8 mg/L. Close attention will be required to ensure water is maintained below the MCL.

Wright Well

Total Gallons pumped (27 Feb to 28 Mar): 169,226 gallons
Total Minutes of Operation: 12,108 minutes

Average Pump Rate: 14 GPM

Comments:

During this reporting period, sample analysis from the Wright Well indicated that the nitrate levels exceeded the maximum contaminant level (10 mg/L). As a result of this, the well was isolated from the distribution system. The nitrate level is suspected to have increase as a result of the proximity of the well to animal husbandry operations and the general leaching of nitrate from septic tanks in the area. The fact that the well performance was improved from February (from 8.7 to 14 GPM) indicates that there is likely a rapid infiltration of water from the surface to the aquifer. Unfortunately, this does not allow for sufficient contact with the soil matrix to allow for absorption of contaminants.

This well will remain isolated from the system until nitrate levels can be achieved that are below the MCL.

Sabrosa Well

Total Gallons pumped (27 Feb to 28 Feb): 153 gallons
Total Minutes of Operation: 13 minutes

Average Pump Rate: 11.8 GPM

Comments:

This well is only called for when the tank levels drop to below 12 feet. During this month, with the Zorillo Well taking the lead, there has been very little draw on the Sabrosa Well.

Summary

Total Water Pumped: 370,309 gallons
Water Hauled: 0 gallons
Total Water Delivered: 370,309 gallons
Average Daily Use: 12,679 gallons per day
200 gallons per day per DU

Comments: Water use between February and March was almost exactly the same (12,670 GPD).

NITRATE EXCEEDANCE

Routine nitrate analysis at the Sabrosa Water Company indicated that the Wright Well water exceeded the maximum contaminant level ("MCL") for nitrate ($\text{NO}_3\text{-N}$). The MCL for nitrate is 10 mg/L. Water tested Wright Well showed the following:

Date Analysis Received	$\text{NO}_3\text{-N}$
10 March 2005	11 mg/L
16 March 2005	12 mg/L

By the Safe Drinking Water Act, on exceeding an MCL, a contingency plan is implemented which allows for a check sample to be taken. The original sample and the check sample are then averaged to determine the reportable level. In this case, the average of the two samples (11.5 mg/L) still exceeded the MCL.

Levels from the Zorillo Well initially showed a nitrate level of 9.8 mg/L, but the check sample returned at 5.1 mg/L. This makes the reportable value 7.5 mg/L. This is below the MCL. However, due to the fact the value exceeds the Reporting Level (5.0 mg/L), Sabrosa will continue to require quarterly sampling for nitrate at the POEs.

The Sabrosa Well was not running during the sampling period.

Immediate Action

On notification of the first sample results, GWM staff isolated the Wright Well from service. Water from the Zorillo Well meets all MCLs, allowing the Sabrosa customers to continue to be served. Additional samples from the distribution system indicate that the water in the distribution system ranges from 3.6 to 5.2 mg/L.

A second sample was taken from the Wright Well to confirm the results. On notification that the check sample confirmed the original sample, on 17 March 2005 GWM contacted:

1. Jenny Young, Maricopa County Environmental Services Department; and
2. John Calkin, Arizona Department of Environmental Quality.

An exceedance of an MCL for nitrate requires initiation of an acute reporting protocol (24 hour public notice). This notice was mailed by first class mail to each Sabrosa Water Customer on 17 March 2005. In addition, the notice was placed on the GWR web-site (www.gwresources.com).

Health Effects of Nitrate

Nitrate is a regulated primary contaminant under the Safe Drinking Water Act due to its potential for causing serious health problems. The following health effects language is taken from the USEPA web-site:

Short-term: Excessive levels of nitrate in drinking water have caused serious illness and sometimes death. The serious illness in infants is due to the conversion of nitrate to nitrite by the body, which can interfere with the oxygen-carrying capacity of the child's blood.

This can be an acute condition in which health deteriorates rapidly over a period of days. Symptoms include shortness of breath and blueness of the skin.

Long-term: Nitrates and nitrites have the potential to cause the following effects from a lifetime exposure at levels above the MCL: diuresis, increased starchy deposits and hemorrhaging of the spleen.

Suspected Route of Entry

The Sabrosa Water Company system is rural-based. Many residents maintain livestock activity in the area. The significant amount of rain received in the area in January and February has likely caused an increase in the water reaching the water table. This run-off water will carry nitrate from the surface or from septic tanks to the groundwater. The other wells in the area may also be susceptible to nitrate contamination, although the Wright Well in particular is situated in direct contact with animal husbandry activities.

Follow-on Activity

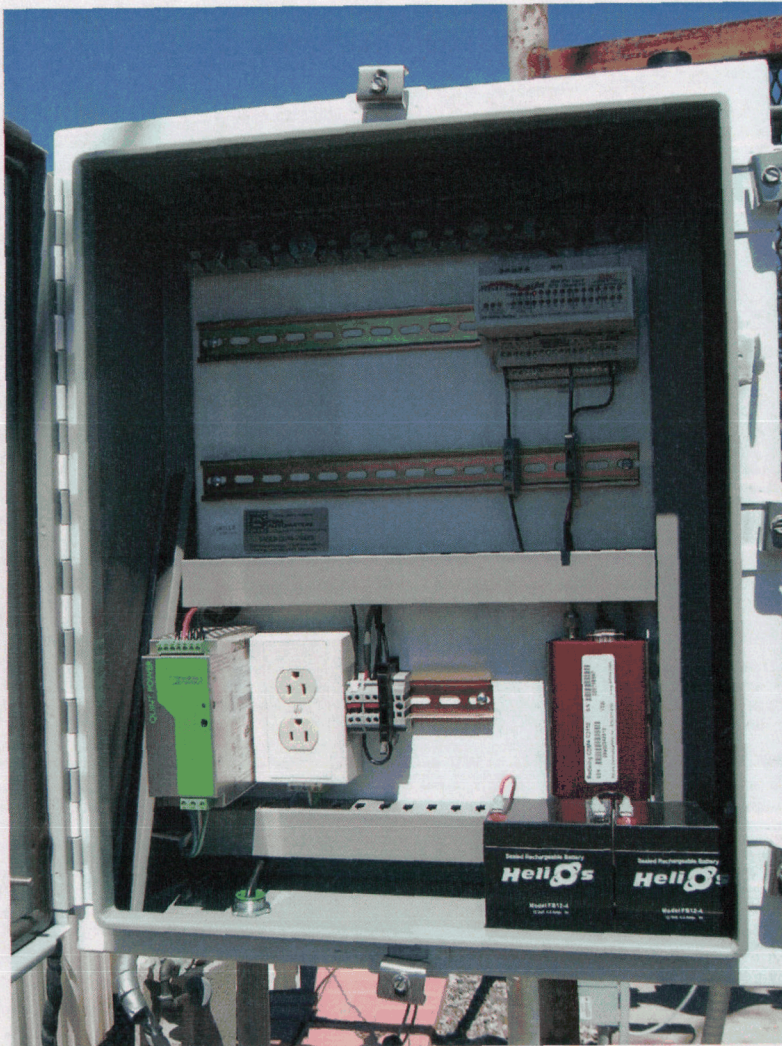
GWM will continue to monitor the nitrate levels at Sabrosa. Operations staff have undertaken the following activities:

1. The Wright Well will remain isolated from the distribution system;
2. Staff are incrementally changing the water in the water storage tank by dropping approximately 2.5 feet every two days, and allowing the tank to be filled from the Zorillo Well to ensure that the distribution system water meets the MCLs; and
3. Increased routine monitoring of nitrate at the POE's is being undertaken.

OPERATIONAL IMPROVEMENTS

During this reporting period, GWR installed alarm sensing systems (cellular based) to alert the operators of a loss of pressure in the system or a low level in the storage tank. Sensors have been installed at all well sites and includes PLC based systems that can be expanded to effect a more effective control of the system over time. This installation was completed by Custom Automation and will allow for advance notice of failures of supply (such as the failure of the Zorillo Well in February 2005).

A typical installation is shown below:



Air was re-introduced to the hydropneumatic tanks, allowing for a more robust pressure response for the system.

Other minor improvements included:

1. Replacement of the sight glass for the Wright Well hydropneumatic tank.
2. Replacement of the Zorillo Well isolation valve.
3. Repair of the hose bib at the Wright Well hydropneumatic tank and install isolation valve.

COMPLIANCE ACTIVITIES

Compliance activities were focused on the nitrate exceedance. Monthly bacteriological tests were completed and showed no contamination.

On 31 March 2005, Mike Mallette from Maricopa County Environmental Services Department inspected the Sabrosa system. The system achieved "substantial compliance" with the following items noted:

1. Cracks in the Sabrosa Well slab need to be repaired;
2. Hydropneumatic Tank at Sabrosa Well has leak (an item noted in the February 2005 report);
and
3. Vacuum breakers need to be installed on any threaded hose-bibs at the well sites;

COSTS TO DATE

To date, GWR has estimated the following on expenditures on Sabrosa Water Company:

Costs to Date (Feb – Mar 2005)

Operations and Management	\$10,000
Emergency Call-outs	\$ 400
Emergency Repairs	\$ 6,500
Emergency Water	\$ 1,000
Laboratory Costs	\$ 750
Alarm System	\$11,500
Total	\$30,150

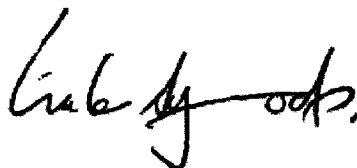
To date the Sabrosa Water Company has billed for a total of \$1,535.

CONCLUSIONS

The isolation of the Wright Well due to nitrate contamination represents a loss of one quarter of the production capacity of the Sabrosa Water Company. In addition, this highlights the susceptibility of the wells to contamination, and likely explains the bacteriological hits associated with the system prior to the installation of the chlorination system under Arizona American Water's term as interim manager. As the company moves into the summer season, water supply will become critical. An alternative supply for this system will be a requirement in the near future.

To date, GWR has invested \$30,150 thus far in the operation of the system. Under the present rate structure, only \$28,000 in revenue is expected. A rate adjustment is imperative.

GLOBAL WATER RESOURCES, LLC

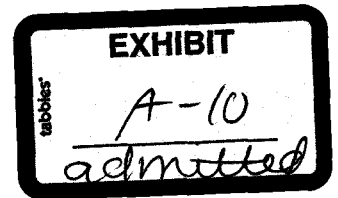


Graham Symmonds, P.Eng.

**Report on the Condition and Performance
of the Sabrosa Water Company**

Global Water Resources, LLC

5 May 2005



BACKGROUND

On 1 February 2005 Global Water Resources, LLC ("GWR") was assigned as the Interim Manager for the Sabrosa Water Company ("SWC"). This report is prepared to highlight the operational performance of the utility, and to identify any shortcomings in the system. It is supplementary to previous operational reports.

GENERAL

This month saw the operation of the Sabrosa Water System pass with no major failures or problems. A leaking service line was discovered, and temporarily repaired. Replacement of this line will be required.

NUMBER OF CUSTOMERS

As of 5 May 2005, SWC had 62 active customers on the system.

OPERATIONAL DATA

The following data indicates the performance of the individual component wells of the system:

Zorillo Well

Total Gallons pumped (28 Mar to 29 Apr):	556,724 gallons
Total Minutes of Operation:	14,279.9 minutes

Average Pump Rate: 39.0 GPM

Comments:

As a result of the nitrate levels in the Wright Well, the Zorillo Well remains the primary service well for SWC.

Wright Well

Total Gallons pumped (28 Mar to 29 Apr):	2,000 gallons
Total Minutes of Operation:	58 minutes

Average Pump Rate: 34.4 GPM – this number is not considered an accurate reflection of well capacity as it represents the well pumping against zero head.

Comments:

This well will remains isolated from the system. Recent data suggests that the nitrate level in the well may be below the MCL. GWR staff is developing a plan to re-connect the well to the system with Maricopa County Environmental Services Department (MCESD).

Sabrosa Well

Total Gallons pumped (28 Mar to 29 Apr): 16 gallons
Total Minutes of Operation: 39 minutes

Average Pump Rate: 0.41 GPM

Comments:

This well is only called for when the tank levels drop to below 12 feet. During this month, with the Zorillo Well taking the lead, there has been very little draw on the Sabrosa Well.

Summary

Total Water Pumped: 558,740 gallons
Water Hauled: 0 gallons
Total Water Delivered: 558,740 gallons
Average Daily Use: 17,461 gallons per day
281.6 gallons per day per DU

Comments: As expected, water usage is increasing as the summer months approach.

NITRATE EXCEEDANCE

As detailed in the March 2005 report, SWC exceeded the MCL for nitrate which necessitated a public notification and isolation of the Wright Well from the distribution system.

Global Water has continued to monitor nitrate levels, and the following data was collected in April:

Wright Well 6.7 mg/L
Zorillo Well 5.4 mg/L
Sabrosa Well 4.7 mg/L

This indicates that potentially the source of high nitrate water has decreased, which further demonstrates the wells' susceptibility to surface water infiltration.

GWR is developing an action plan to re-introduce the well into the potable inventory as follows:

1. GWR will take daily samples with a portable water test kit;
2. If a sample is indicated as exceeding the MCL (> 10 mg/L), the well will be isolated;
3. A sample will be drawn from both the POE and the Distribution System for analysis by a certified laboratory on a rush basis;
4. If the POE exceeds the MCL, the well remains isolated from the system;
5. If the distribution system sample exceeds the MCL, GWR will begin flushing the system and take the required confirmation sample;
6. If the confirmation sample in the distribution system exceeds the MCL (or the average of the original and confirmation samples exceeds the MCL) a public notification will take place pursuant to R18-4-105;
7. If the lab sample shows the POE to be less than the MCL then the Wright Well may be re-introduced to the system.

OPERATIONAL IMPROVEMENTS

During this reporting period, GWR began the remedy of items identified in the MCESD Sanitary Survey completed in March 2005. This included the removal of threaded hose-bibs at the well sites and the sealing of cracks in the Sabrosa Well slab. Further action is still required, including the repair/replacement of the Sabrosa Well hydropneumatic tank. It is expected that the costs of replacing this tank will be approximately \$45,000.

COMPLIANCE ACTIVITIES

Compliance activities remained active on the nitrate exceedance. Monthly bacteriological tests were completed and showed no contamination.

COSTS TO DATE

To date, GWR has estimated the following on expenditures on Sabrosa Water Company:

Costs to Date (Feb – Apr 2005)

Operations and Management	\$15,000
Emergency Call-outs	\$ 500
Emergency Repairs	\$ 6,500
Emergency Water	\$ 1,000
Laboratory Costs	\$ 1,000
Alarm System	\$11,500
Total	\$35,500

LONG-TERM SOLUTIONS

GWR has begun the formal investigation of the establishment of a long-term solution for Sabrosa Water Company by way of a pipeline from Cave Creek Water Company (a Global Water utility). It is expected that this evaluation will be completed shortly, and the design and acquisition of necessary easements and rights-of-way may begin.

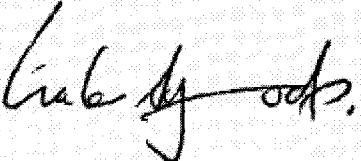
This will allow a permanent supply of water to be delivered, and allow for the well system to be retained as a redundant source only.

CONCLUSIONS

The isolation of the Wright Well due to nitrate contamination continues to impact the system. Activity to re-introduce the well will be critical to meet the increasing demand.

GWR continues to heavily subsidize operations and capital improvements at SWC.

GLOBAL WATER RESOURCES, LLC

A handwritten signature in black ink, appearing to read "Graham Symmonds", is written over a rectangular area with a light gray dot grid pattern.

Graham Symmonds, P.Eng.